



AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

Hartford HealthCare Corporation and Subsidiaries Years Ended September 30, 2011 and 2010 With Report of Independent Auditors

Ernst & Young LLP

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Audited Consolidated Financial Statements and Other Financial Information

Years Ended September 30, 2011 and 2010

Contents

Report of Independent Auditors	
Consolidated Balance Sheets	
Consolidated Statements of Operations and Changes in Net Assets	3
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	
Other Financial Information	
Report of Independent Auditors on Other Financial Information	49
Consolidating Balance Sheet	
Consolidating Statement of Operations	



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Report of Independent Auditors

Board of Directors Hartford HealthCare Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of Hartford HealthCare Corporation and Subsidiaries (the Corporation) as of September 30, 2011 and 2010, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Corporation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hartford HealthCare Corporation and Subsidiaries at September 30, 2011 and 2010, and the consolidated results of their operations and changes in net assets, and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

January 27, 2012

Hartford HealthCare

Consolidated Balance Sheets

	September 30 2011 2010				
		(In Thousands)			
Assets				•	
Current assets:					
Cash and cash equivalents	\$	139,631	\$	90,044	
Accounts receivable, less allowances for doubtful accounts of approximately					
\$58,200 in 2011 and \$50,900 in 2010		241,722		177,076	
Other receivables		30,390		27,022	
Inventories of supplies		21,927		15,055	
Prepaid expenses and other assets		22,667		17,543	
Notes receivable		-		2,875	
Current portion of assets whose use is limited		5,903		4,305	
Total current assets		462,240		333,920	
Assets whose use is limited:		•		,	
Investments and other assets		225 944		220 105	
Investments for restricted purposes		325,844		230,105	
Escrow funds for long-term debt		226,209		185,916	
Funds designated for debt service		87,044		_	
and designated for door beliefe		19,598 658,695		416.021	
Funda hald in tweat her others		,		416,021	
Funds held in trust by others		148,185		139,270	
Other assets		122,878		74,274	
Property, plant and equipment, net		731,563		532,217	
Liabilities and net assets	\$	2,123,561	\$	1,495,702	
Current liabilities:					
		_, _,			
Accounts payable	\$	51,242	\$	60,856	
Salaries, wages, payroll taxes and amounts					
withheld from employees		50,662		41,733	
Accrued expenses		63,575		29,447	
Estimated third-party payor settlements		34,065		2,610	
Current portion of long-term debt and					
capital leases		25,230		44,621	
Current portion of accrued pension liability		33,250		13,016	
Current portion of other liabilities		17,287		18,838	
Total current liabilities		275,311		211,121	
Long-term debt and capital leases		413,327		168,532	
Accrued pension liability		544,500		390,628	
Other liabilities		42,466		16,272	
		42,400		10,272	
Net assets:					
Unrestricted		491,087		376,306	
Temporarily restricted		121,465		113,708	
Permanently restricted		235,405		219,135	
		847,957		709,149	
	\$		\$	1,495,702	
		,,	*	19.009702	

Hartford HealthCare

Consolidated Statements of Operations and Changes in Net Assets

	•	Year Ended September 30			
		2011		2010	
	******	(In Tho	usan	ds)	
Unrestricted revenues, gains and other support:					
Net patient service revenue	\$	1,615,988	\$	1,248,572	
Other operating revenue		177,014		168,060	
Net assets released from restrictions for operations		10,961		9,859	
· •		1,803,963		1,426,491	
Operating expenses:					
Salaries and wages		803,824		630,357	
Employee benefits		244,010		166,567	
Supplies and other		322,433		283,019	
Purchased services		263,920		194,931	
Depreciation and amortization		81,701		64,992	
Provision for uncollectible accounts		35,420		64,021	
Interest		6,487		4,462	
	PHALES.	1,757,795		1,408,349	
Income from operations before loss on early					
extinguishment of debt		46,168		18,142	
Loss on early extinguishment of debt	<u> </u>	(2,635)		<u> </u>	
Operating income		43,533		18,142	
Nonoperating income:					
Income from investments, gifts and bequests, net		13,334		6,987	
Other		(2,266)		(427)	
Contribution received in the acquisition of Central				` -	
Connecticut Health Alliance and Subsidiaries		190,132		. <u> </u>	
		201,200		6,560	
Excess of revenues over expenses before					
change in unrealized gains and losses on investments		244,733		24,702	
Change in unrealized gains and losses on investments		(18,574)		25,285	
Excess of revenues over expenses	<u> </u>	226,159		49,987	

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Septem	ber 3	0
	2011		2010
TT	(In Thou	sands	s)
Unrestricted net assets:			
Excess of revenue over expenses	\$ 226,159	\$	49,987
Transfer from temporarily restricted net assets	149		211
Net unrealized losses on investments	(9,478)		_
Net assets released from restrictions used for the purchase			
of equipment	3,999		3,823
Change in pension and post-retirement funding obligation	(106,048)		(28,294)
Other			93
Increase in unrestricted net assets	114,781		25,820
Temporarily restricted net assets:			
Restricted contributions	7,796		7,811
Restricted investment income	8,279		647
Change in unrealized gains and losses on investments	(10,965)		12,180
Transfer to unrestricted net assets	(149)		(673)
Net assets released from restrictions for operations	(10,961)		(9,859)
Net assets released from restrictions used for the purchase			, ,
of equipment	(3,999)		(3,823)
Contribution received in the acquisition of Central Connecticut			_
Health Alliance and Subsidiaries	17,756		
Increase in temporarily restricted net assets	7,757		6,283
Permanently restricted net assets:			
Restricted contributions	315		1,358
Restricted investment income	355		70
Contribution received in the acquisition of Central Connecticut			
Health Alliance and Subsidiaries	21,415		
Change in unrealized gains and losses on funds held in trust	,		
by others	(5,815)		14,111
Transfer from unrestricted and temporarily restricted net assets	() ,		
Increase in permanently restricted net assets	 16,270		16.001
Increase in net assets	 138,808		16,001
Included in flot assets	120,000		48,104
Net assets at beginning of year	709,149		661,045
Net assets at end of year	 847,957	\$	709,149

Consolidated Statements of Cash Flows

	Year Ended September 2011 201				
Cash flows from operating activities					
Increase in net assets	\$	138,808	\$	48,104	
Adjustments to reconcile change in net assets to net cash					
provided by operating activities:					
Noncash items:					
Contribution received in the acquisition of Central					
Connecticut Health Alliance and Subsidiaries		(229,303)		_	
Depreciation and amortization		81,701		64,992	
Loss on early extinguishment of debt		2,635		_	
Change in unrealized gains and losses on		_,,			
assets whose use is limited		39,017		37,465	
Change in unrealized gains and losses on funds		03,017		37,103	
held in trust by others		5,815		(14,111)	
Provision for uncollectible accounts		35,420		64,021	
Change in net assets related to pension and		55,420		0-7,021	
post-retirement funding obligation		106,048		28,294	
Change in fair value of interest rate swap agreements		4,961		1,797	
Other		4,701		,	
Other changes in net assets:		_		(93)	
Restricted contributions and investment income		(16.745)		(0.996)	
Changes in assets and liabilities, net (Note 13)		(16,745)		(9,886)	
Net cash provided by operating activities		(52,713)		(90,513)	
receasin provided by operating activities		115,644		130,070	
Cash flows from investing activities					
Purchase of property, plant and equipment, net		(111,924)		(96,254)	
Increase in assets whose use is limited, net		(127,279)		(68,584)	
Cash received in the acquisition of Central Connecticut				, , ,	
Health Alliance and Subsidiaries		35,856		_	
Cash paid in the acquisition of Constitution Surgery Centers		(27,526)			
Net cash used in investing activities		(230,873)		(164,838)	
Cash flows from financing activities					
Proceeds from long-term debt and capital leases		430,779		36,516	
Payments on long-term debt and capital leases		(282,708)		(4,151)	
Restricted contributions and investment income		16,745		9,886	
Net cash provided by financing activities		164,816		42,251	
Net increase in cash and cash equivalents		49,587		7,483	
•		y - 0 /		,,,,,,,,	
Cash and cash equivalents at beginning of year		90,044		82,561	
Cash and cash equivalents at end of year	\$	139,631 \$	5	90,044	

Notes to Consolidated Financial Statements

September 30, 2011

1. Significant Accounting Policies

The accounting policies that affect significant elements of the Hartford HealthCare Corporation and Subsidiaries' (the Corporation) consolidated financial statements are summarized below and in Note 2.

Organization

The Corporation was incorporated on August 21, 1985 as a not-for-profit organization under the Non-Stock Corporation Act of the State of Connecticut. The Corporation is organized exclusively for public welfare, charitable, scientific, literary and educational purposes, including the furtherance of the welfare, programs and activities of its subsidiaries.

The Corporation is the sole member of consolidated Hartford Hospital (Hartford), consolidated MidState Medical Center (the Medical Center), combined Windham Community Memorial Hospital (Windham), consolidated H.H.M.O.B, consolidated VNA Health Care, Inc. (VNA Health Care), Natchaug Hospital (Natchaug), consolidated Rushford Center, Inc. and Clinical Laboratory Partners, LLC. Effective February 1, 2011, Central Connecticut Health Alliance and its subsidiaries (collectively referred to as "CCHA") was acquired by the Corporation, refer to Central Connecticut Health Alliance Acquisition section of this footnote.

Hartford is a voluntary association incorporated under the General Statutes of the State of Connecticut. The consolidated financial statements of Hartford include Jefferson House and Cedar Mountain Commons (departments of Hartford) and the Institute of Living. Jefferson House is a nursing home facility that is operated as a department of Hartford Hospital as mandated legislation enacted in 1873. Cedar Mountain Commons is a senior living community that opened in February 2001 and is owned by Hartford and Jefferson House. The Institute of Living is a mental health center in Hartford, Connecticut and is a wholly-owned subsidiary of Hartford.

The Medical Center is a nonprofit organization incorporated under the General Statutes of the State of Connecticut. The consolidated financial statements of the Medical Center include Meriden Imaging Center and MidState MSO, LLC. In 1999, the Medical Center acquired an 80% interest in the Meriden Imaging Center. Effective February 14, 2006, MidState MSO, LLC was created to provide management services and support for medical practices.

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Windham is a voluntary association incorporated under the General Statutes of the State of Connecticut. The combined financial statements of Windham include The Hatch Hospital Corporation and the Windham Hospital Foundation, Inc. The Hatch Hospital Corporation and the Windham Hospital Foundation, Inc. are both nonprofit organizations incorporated under the General Statutes of the State of Connecticut.

H.H.M.O.B. was incorporated under the laws of the State of Connecticut for the purpose of operating a medical office building. The consolidated financial statements of H.H.M.O.B. include Eastern Rehabilitation Network, Hartford Medical Group and Intermediate Medical Care Centers, Inc.

VNA Health Care is a nonprofit, nonstick Connecticut corporation, founded in 1901, which was incorporated on March 1, 1986 as the parent company and sole member of VNA Health Resources, Inc. VNA Health Care provides corporate management, financial and other services to its subsidiary. VNA converted its fiscal to September 30 from June 30 in 2011; accordingly, and fifteen months have been reported.

Natchaug is a nonprofit organization incorporated under the General Statutes of the State of Connecticut. Natchaug provides inpatient and outpatient psychiatric healthcare services.

Rushford Center, Inc. is a nonprofit organization that includes Rushford Foundation, Inc. The Foundation is a nonprofit agency in which Rushford Center, Inc. is a 100% owner. Rushford Center, Inc. has a June 30 year-end.

Clinical Laboratory Partners, LLC was created in 1998 through a merger of three Connecticut based laboratories.

All material intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Eye Surgery Center Acquisition

On February 4, 2011, the Corporation acquired certain assets of an eye surgery center from Constitution Surgery Centers. The acquisition was to enhance ophthalmology services available to patients. Cash paid for the transaction was \$27.5 million. The Corporation accounted for this transaction as an asset purchase under Accounting Standards Codification (ASC) 958-805, Business Combinations, with the allocation of the purchase price to the related assets acquired and liabilities assumed based upon their respective fair values. The purchase price paid in excess of the fair value of identified assets aggregated \$25.8 million which has been recorded as goodwill. The eye surgery center results (net patient revenue of \$11.8 million and operating expenses of \$4.3 million) are included in the consolidated statement of operations since the acquisition date.

Central Connecticut Health Alliance Acquisition

On February 1, 2011 (the Acquisition Date), the Corporation acquired CCHA, a system of health care affiliates that provides a wide array of services throughout the region including the Hospital of Central Connecticut (HOCC) and its wholly owned subsidiary, Grand Indemnity Company, Ltd (GIC), VNA of Central Connecticut, Inc. (VNACC), Central Connecticut Senior Health Services, Inc. (CCSHS) (d/b/a Southington Care Center), which includes Mulberry Gardens of Southington, LLC (Mulberry Gardens) and The Orchards at Southington (the Orchards), Community Mental Health Affiliates, Inc. (CMHA), CenConn Services, Inc. (CSI), New Britain Occupational Health Center and Central Connecticut Sports Medicine Center.

Pursuant to the acquisition agreement, the Corporation acquired CCHA by means of an inherent contribution where no consideration was transferred by the Corporation. The Corporation accounted for this business combination by applying the acquisition method, and accordingly, the inherent contribution received was valued as the excess of assets acquired over liabilities assumed. In determining the inherent contribution received, all assets acquired and liabilities assumed were measured at fair value as of the Acquisition Date. The results of CCHA's operations have been included in the consolidated financial statements since the Acquisition Date.

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Central Connecticut Health Alliance Acquisition (continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the Acquisition Date:

		February 1, 2011		
		n Thousands)		
Assets				
Cash and cash equivalents	\$	35,856		
Accounts receivable, net of allowance for doubtful accounts		54,246		
Prepaid expenses and other assets		30,919		
Assets limited as to use		156,010		
Funds held in trust by others		14,730		
Property, plant and equipment, net		167,423		
Other assets		3,684		
Total assets acquired		462,868		
Liabilities				
Accounts payable and accrued expenses		45,721		
Salaries, wages, payroll taxes and amounts withheld from employees		16,404		
Estimated third-party payor settlements		25,981		
Other liabilities		11,668		
Long-term debt		64,776		
Accrued pension liability		69,015		
Total liabilities assumed		233,565		
Excess of assets acquired over liabilities assumed	\$	229,303		
Net assets acquired				
Unrestricted	\$	190,132		
Temporarily restricted	*	17,756		
Permanently restricted		21,415		
•	\$	229,303		
	Ψ	447,303		

The following table summarizes the operating revenue and changes in net assets attributable to CCHA since the Acquisition Date that are included in the accompanying consolidated financial statements.

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Central Connecticut Health Alliance Acquisition (continued)

	Period from February 1, 2011 to September 30, 2011
	(In Thousands)
Total operating revenue	\$ 295,485
Change in net assets:	
Unrestricted net assets	(36,999)
Temporarily restricted net assets	(948)
Permanently restricted net assets	(1,232)
Total change in net assets	\$ (39,179)

The following table represents unaudited pro forma financial information, assuming the acquisition of CCHA had taken place on October 1, 2009. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on the Acquisition Date.

		September 30				
	2011	2010				
	(In Thousands)					
Total operating revenue	\$ 1,955,501	\$ 1,873,410				
Change in net assets:						
Unrestricted net assets	(23,461)	38,864				
Temporarily restricted net assets	(8,619)	7,378				
Permanently restricted net assets	(4,455)	16,802				
Total change in net assets	\$ (36,535)	\$ 63,044				

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Goodwill

Goodwill represents the excess of cost of an acquired entity over the net of the amounts assigned to the fair value of assets acquired and liabilities assumed. As of September 30, 2011, goodwill of \$25.8 million is recorded in the Corporation's consolidated balance sheets within other assets. Goodwill is reviewed annually for impairment or more frequently if events or circumstances indicate that the carrying value of an asset may not be recoverable. The impairment test for goodwill requires a comparison of fair value of each reporting unit that has goodwill associated with its operations with its carrying amount.

The impairment analysis includes estimating the fair value of each of the reporting units which have goodwill associated with their operations using discounted cash flow and multiples of cash earnings valuation techniques, plus valuation comparisons to recent public sale of similar businesses, if any. These valuation methods require the Corporation to make estimates and assumptions regarding future operating results, cash flows, changes in working capital and capital expenditures, profitability, and the cost of capital. Although the Corporation believes that the estimates and assumptions used are reasonable, actual results could differ from the estimates and assumptions.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term.

Regulatory Matters

The Corporation is required to file annual operating information with the State of Connecticut Office of Health Care Access.

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The carrying value of financial instruments classified as current assets and current liabilities approximate fair value. The fair values of the Corporation's financial instruments are disclosed in Note 5.

Cash and Cash Equivalents

Cash and cash equivalents include cash, commercial paper and corporate and government bonds which are available to be converted to liquid assets within three months. Cash and cash equivalents are maintained with domestic financial institutions with deposits that exceed federally insured limits. It is the Corporation's policy to monitor the financial strength of those institutions.

Patient Accounts Receivable

Patient accounts receivable result from the health care services provided by the Corporation. Additions to the allowance for doubtful accounts result from the provision for uncollectible accounts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 2 for additional information relative to third-party payor programs.

The Corporation's primary concentration of credit risk is patient accounts receivable, which consist of amounts owed by various governmental agencies, insurance companies and private patients. The Corporation manages the receivables by regularly reviewing its patient accounts and contracts, and by providing appropriate allowances for uncollectible amounts. Significant concentrations of gross patient accounts receivable includes 29% and 10%, and 28% and 14%, for Medicare and Medicaid, respectively, for the fiscal years ended September 30, 2011 and 2010, respectively.

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost or market. The Corporation values its inventories using the first-in, first-out method.

Investments

A majority of the Corporation's investment portfolio is classified as a trading portfolio with unrealized gains and losses included in the excess of revenues over expenses. CCHA has an other than trading portfolio whereby unrealized gains and losses are excluded from excess of revenues over expenses, unless the losses are deemed to be other than temporary.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value using quoted market prices or model-driven valuations at the balance sheet date. Alternative investments, those assets whose market value is not readily determinable, are stated at fair value as estimated in an unquoted market. Valuations of those investments and, therefore, the Corporation's holdings may be determined by the investment manager and are primarily based on the underlying securities. Assets temporarily restricted (by donor) are recorded at fair value at the date of donation, which is then considered cost. Investment income (including realized gains and losses on investments, interest and dividends, and the change in unrealized gains and losses) is included in nonoperating income unless the income or loss is restricted by the donor or law. The cost of securities sold is based on the specific identification method.

CCHA continually reviews its securities for impairment conditions, which could indicate that an other-than-temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other-than-temporary. Based on recently improving market conditions, as well as CCHA's ability and intent to hold impaired assets to recovery, no other than temporary impairments were recorded in 2011 or 2010.

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Investments (continued)

The Corporation holds non-marketable equity investments in private companies. At September 30, 2011 and 2010, the carrying value of the Corporation's portfolio of strategic investments totaled \$5,546,866 and \$5,716,091, respectively; of which \$76,751 and \$624,052 are accounted for at cost and \$5,470,115 and \$5,015,288 are accounted for using the equity method of accounting at September 30, 2011 and 2010, respectively. These investments are included in other assets on the consolidated balance sheets. The Corporation's share of the income or losses of all equity-method investees, using the most current financial information available, which reflects the financial performance three months in arrears, is included in nonoperating income.

Property, Plant and Equipment

Property, plant and equipment is stated on the basis of cost. The Corporation provides for depreciation of property, plant and equipment using the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives.

Conditional asset retirement obligations were \$4,611,000 and \$5,738,000 as of September 30, 2011 and 2010, respectively. These obligations are recorded in other noncurrent liabilities in the accompanying consolidated balance sheet. There are no assets that are legally restricted for purposes of settling asset retirement obligations. During 2011, retirement obligations incurred and settled were approximately \$2,500,000.

Assets Whose Use is Limited

Assets whose use is limited includes assets that are set aside internally by management or by the Board of Directors for future capital improvements, research and education. Amounts that are restricted by the Board of Directors are not available for use without the approval of the Board of Directors. Restricted investment income in excess of a predetermined spending limit has also been set aside as long-term investments. Investments for restricted purposes are those restricted based on donors' intents. Escrow funds and debt service funds have also been set aside related to existing obligations on outstanding long-term debt.

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those where use by the Corporation has been limited by donors, to a specific time frame or purpose. Permanently restricted net assets have been restricted by donors and are maintained by the Corporation in perpetuity. The Corporation is a partial beneficiary to various perpetual trust agreements. Assets recorded under these agreements are recognized at fair value. The investment income generated from these funds is expendable to support healthcare services and the assets are classified as permanently restricted.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Unrestricted contributions are recorded, net of expenses, within other operating revenue.

Pledges receivable to be received after one year are discounted at a discount rate commensurate with the risks involved. Amortization of the discount is recognized as revenue and is reflected in accordance with donor-imposed restrictions, if any, on the contributions.

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are unrestricted contributions in the accompanying financial statements, except those relating to donations of long-lived assets.

Interest Rate Swap Agreements

The Corporation utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. The Corporation does not hold or issue derivative financial instruments for trading purposes. The Corporation is exposed to credit loss in the event of nonperformance by the

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Interest Rate Swap Agreements (continued)

counterparties to its interest rate swap agreements. Interest rate swap agreements are reported at fair value. Changes in fair value are recognized in the performance indicator in the consolidated statements of operations and changes in net assets.

Excess of Revenues over Expenses

The consolidated statements of operations and changes in net assets include the excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from the excess of revenues over expenses, include the changes in pension and post-retirement funding obligations, net assets released from restrictions for the purchase of equipment, unrealized gains and losses on other than trading investments and permanent transfers of assets to and from affiliates.

Nonoperating Income

Nonoperating income includes income on investments, realized and unrealized gains and losses on trading investments, restricted gifts, bequests, changes in the fair value of swap agreements and the excess of revenues over expenses of Jefferson House and Cedar Mountain Commons.

Other Operating Revenue

Other operating revenue includes services to other institutions, school tuition, rental income, grant income, research income, and unrestricted contributions.

Unpaid Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses and related reinsurance recoverable for HOCC includes case basis estimates of reported losses, plus supplemental amounts calculated based upon loss projections utilizing actuarial studies, HOCC's own historical data and industry data. In establishing this reserve and the related reinsurance recoverable, GIC utilizes the findings of an independent consulting actuary.

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Unpaid Losses and Loss Adjustment Expenses (continued)

Management believes that its aggregate reserve for losses and loss adjustment expenses and related reinsurance recoverable at year end represents its best estimate, based on the available data, of the amount necessary to cover the ultimate cost of losses; however, because of the nature of the insured risks and limited historical experience, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such asset and liability at the consolidated balance sheet date. Accordingly, the ultimate asset and liability could be significantly in excess of or less than the amount indicated in these consolidated financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

Recognition of Premium Revenues

Premiums written for GIC are earned on a pro-rata basis over the related policy period. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums.

Reinsurance

In the normal course of business, GIC seeks to reduce its loss exposure by reinsuring certain levels of risk with reinsurers. Premiums ceded are expensed over the term of their related policies.

Income Taxes

The Corporation and all of its subsidiaries are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code except for Clinical Laboratory Partners, LLC, CSI and H.H.M.O.B. and its subsidiaries, which are taxable entities of which income taxes are immaterial.

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Income Taxes (continued)

GIC is an insurance company organized under the laws of Bermuda. GIC has received an undertaking from the Bermuda government exempting it from all local income, withholding and capital gains taxes until the year 2016.

Bond Issuance Costs

Bond issuance costs associated with long-term debt for capital projects are amortized over the term of the debt using the effective interest method. Bond issuance costs of \$4,408,000 and \$2,411,000 are recorded in other assets in the consolidated balance sheets as of September 30, 2011 and 2010, respectively.

New Accounting Standards

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, Improving Disclosures about Fair Value Measurements, (ASU 2010-06). ASU 2010-06 amended ASC 820 to clarify certain existing fair value disclosures and require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each "class" of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2 and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2012, the guidance in ASU 2010-06 became effective for reporting periods beginning after December 15, 2009. The adoption of the provisions of ASU 2010-06 did not have a significant impact on the Corporation's consolidated financial statements.

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

New Accounting Standards (continued)

In January 2011, the FASB issued ASU No. 2010-07, Not-for-Profit Entities: Mergers and Acquisitions, (ASU 2010-07), which established accounting and disclosure requirements for how a not-for-profit entity determines whether a combination is a merger or an acquisition, how to account for each, and the required disclosures. In addition, ASU 2010-07 included amendments to FASB's Accounting Standards Codification (the Codification, or ASC) Topic 350, Intangibles – Goodwill and Other, (ASC Topic 350), and Topic 810, Consolidation, (ASC Topic 810) to make both applicable to not-for-profit entities. ASC Topic 350 clarifies the accounting for goodwill and indefinite-lived identifiable intangible assets recognized in a not-for-profit entity's acquisition of a business or nonprofit activity. Such assets are not amortized and are tested for impairment at least annually. The Corporation adopted the guidance relative to ASU 2010-07 as of October 1, 2010, and has applied its provisions to the acquisitions made during 2011.

In August 2010, the FASB issued ASC 2010-23, *Measuring Charity Care for Disclosure*. ASC 2010-23 requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. ASC 2010-23 also requires separate disclosure of the amount of any cash reimbursements received for providing charity care. ASC 2010-23 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Corporation is evaluating the effect of ASC 2010-23 on its consolidated financial statements.

In July 2011, FASB issued ASU 2011-07, Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts. ASU 2011-07 requires certain health care entities to present the bad debt expense associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) rather than as an operating expense with enhanced footnote disclosures on the policies for recognizing revenue and assessing bad debts, and qualitative and quantitative information about changes in the allowance for doubtful accounts. The guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The Corporation is evaluating the effect of ASC 2010-23 on its consolidated financial statements.

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

New Accounting Standards (continued)

In August 2010, the FASB also issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. Under ASU 2010-24 anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities will be presented separately on the balance sheet. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Corporation is evaluating the effect of ASU 2010-24 on its consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2010 balances previously reported in the consolidated balance sheets and statements of operations and changes in net assets in order to conform with the year ended September 30, 2011 presentation.

2. Net Patient Service Revenue and Charity Care

Revenues from the Medicare and Medicaid programs accounted for approximately 40% and 13% and 40% and 12%, respectively, of the Corporation's net patient service revenue for the years ended September 30, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

The Corporation believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Corporation.

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue and Charity Care (continued)

The following table summarizes net patient service revenue:

	Year Ended 2011	September 30 2010
	(In Th	ousands)
Gross patient service revenue Less:	\$ 3,624,354	\$ 2,779,860
Allowances	1,965,691	1,492,732
Charity care	42,675	38,556
	\$ 1,615,988	\$ 1,248,572

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges and per diem payments. Net patient service revenue is affected by the State of Connecticut Disproportionate Share program and is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. During 2011 and 2010, the Corporation recorded net changes in estimates of approximately \$10,443,000 and \$1,283,000, respectively which primarily related to better than previously estimated third-party payor settlements.

The Corporation has established estimates based on information presently available, of amounts due to or from Medicare, Medicaid and third-party payors for adjustments to current and prior year payment rates, based on industry-wide and Corporation-specific data. Such amounts are included in the accompanying balance sheets. Additionally, certain payors' payment rates for various years have been appealed by the Corporation. If the appeals are successful, additional income applicable to those years might be realized.

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue and Charity Care (continued)

The Corporation has agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under those agreements, the HMOs make fee-for-service payments to the Corporation for certain covered services based upon discounted fee schedules. In addition, the Corporation receives monthly capitation payments from certain HMOs based on the number of each HMO's participants, regardless of services actually performed by the Corporation.

The Corporation accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to the established policies of the Corporation. Essentially, these policies define charity care as those services for which no payment is anticipated. In accessing a patient's inability to pay, the Corporation utilizes the generally recognized poverty income levels for the State of Connecticut, but also includes certain cases where incurred charges are significant when compared to incomes.

3. Net Assets

Temporarily restricted net assets at September 30 are available for the following purposes:

	2011	2010
	(In Th	iousands)
Free beds	\$ 25,304	\$ 24,362
Research	30,690	34,206
Education	10,139	11,490
Capital replacement	9.573	10,669
Other health care services	45,759	32,981
	\$ 121,465	\$ \$ 113,708

Notes to Consolidated Financial Statements (continued)

3. Net Assets (continued)

Permanently restricted net assets at September 30 are restricted for:

	201	1		2010
	(In Thousands)			ids)
Investments to be held in perpetuity, the income from which is expendable to support health care services	\$ 65,	,860	\$	58,950
Endowment requiring income to be added to original gift to support health care services	21,	,360		20,915
Restricted funds held in trust by others, the income				
from which is expendable to support health care				
services	148,	185		139,270
	\$ 235,	405	\$	219,135

The Corporation's endowment consists of hundreds of individuals funds established for a variety of purposes. Those funds include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Corporation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently net restricted assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Corporation and the donor-restricted endowment fund

Notes to Consolidated Financial Statements (continued)

3. Net Assets (continued)

- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Corporation
- 7) The investment policies of the Corporation

The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for a donor-specific period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 4% over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based alternative investments to achieve its long-term objective within prudent risk constraints.

The Corporation has a policy of appropriating for distribution each year of 4% of the trailing twelve quarter average market value of each fiscal year in which the distribution is planned. This is consistent with the Hospital's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns. HOCC, The Medical Center, Windham, VNA Health Care and Rushford evaluated endowment spending based on need and current market conditions as well as long-term investment goals.

Notes to Consolidated Financial Statements (continued)

3. Net Assets (continued)

Endowment net asset composition (excluding funds held in trust by others) by type of fund as of September 30, 2011, consisted of the following (in thousands):

	Unre	stricted	mporarily estricted	ermanently Restricted	 Total
Donor-restricted endowment funds Board-designated endowment funds	\$ 10	_ 3,828	\$ 59,392 -	\$ 87,220 -	\$ 146,612 103,828
•	\$ 10	3,828	\$ 59,392	\$ 87,220	\$ 250,440

Changes in endowment funds for the fiscal year ended September 30, 2011, consisted of the following (in thousands):

	Unres	tricted	emporarily Restricted	rmanently estricted	Total	
Endowment net assets beginning of the year Reclassifications	\$ 14	,259 (268)	\$ 63,077 -	\$ 79 ,865 –	\$ 157,201 (268)	
Endowment net assets after reclassification	13	,991	63,077	79,865	156,933	
Investment return:					· ·	
Investment income	1	.293	586	359	2,238	
Net appreciation (realized and unrealized)	(9	,280)	(936)	(4)	(10,220)	
Net asset reclassification – net unrealized					· ·	
loss on endowments		148	(148)	<u></u>		
Total investment return	(7	,839)	(498)	355	(7,982)	
Contributions		208	228	329	765	
Contribution received in the acquisition of						
Central Connecticut Health Alliance	97	,583	3,223	6,685	107,491	
Appropriation of endowment assets for				an as '		
expenditure		(115)	(6,638)	(14)	(6,767)	
Endowment net assets, end of year	\$ 103	,828	\$ 59,392	\$ 87,220	\$ 250,440	

Notes to Consolidated Financial Statements (continued)

3. Net Assets (continued)

Endowment net asset composition (excluding funds held in trust by others) by type of fund as of September 30, 2010, consisted of the following (in thousands):

	Un	restricted	mporarily estricted	ermanently Restricted	 Total
Donor-restricted endowment funds Board-designated endowment funds	\$	- 14,259	\$ 63,077 -	\$ 79,865 –	\$ 142,942 14,259
-	\$	14,259	\$ 63,077	\$ 79,865	\$ 157,201

Changes in endowment funds for the fiscal year ended September 30, 2010, consisted of the following (in thousands):

	_Ur	nrestricted	emporarily Restricted	rmanently estricted	Total
Endowment net assets beginning of the year Reclassifications	\$	12,680 (67)	\$ 53,340 (395)	\$ 78,733 (296)	\$ 144,753 (758)
Endowment net assets after reclassification		12,613	52,945	78,437	143,995
Investment return:					
Investment income		388	1,457	58	1,903
Net appreciation (realized and unrealized)		1,098	12,081	12	13,191
Net asset reclassification - net unrealized					
loss on endowments		278	(278)	_	
Total investment return		1,764	13,260	70	15,094
Contributions		_	124	1,358	1,482
Appropriation of endowment assets for expenditure		(118)	(3,252)	,	(3,370)
Endowment net assets, end of year	\$	14,259	\$ 63,077	\$ 79,865	\$ 157,201

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level that the donor, as stipulated by, UPMIFA requires the Corporation to retain as a fund of perpetual duration. These deficiencies periodically result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions in which case the Board of Directors may deem unprudent the continuation of appropriation for a limited period. There were no material deficiencies as of September 30, 2011 and 2010, respectively.

Notes to Consolidated Financial Statements (continued)

4. Assets Whose Use is Limited

Included in assets whose use is limited are the following amounts:

	Septer	nber 30
	2011	2010
	(In The	ousands)
Cash and cash equivalents	\$ 3,771	\$ 2,111
Money market funds	110,548	4,434
Equity securities:		
U.S.	43,856	43,301
International	79	_
Fixed income bonds:		
U.S.	47,747	78,088
International	9,137	_
Mutual funds:	· ·	
U.S.	171,973	74,777
International	66,014	66,137
Common collective funds:		
U.S.	140,006	111,100
International	41,409	37,944
Alternative investments and other	28,106	270
Other notes and accounts receivable	200	115
Pledges receivable, net	1,752	2,049
	\$ 664,598	\$ 420,326

The composition and presentation of income from investments, gifts and bequests, net, which are included in nonoperating income in the consolidated statements of operations and changes in net assets, are as follows:

	`	Year Ended September 30						
		2011		2010				
		(In Th	เอนรสห	ids)				
Interest and dividend income	\$	5,840	\$	6,711				
Realized gain (loss) on investments, net		8,573		(348)				
Other		(1,079)		624				
	\$	13,334	\$	6,987				

Notes to Consolidated Financial Statements (continued)

5. Fair Values of Financial Instruments

As defined in ASC 820-10, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820-10 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

Notes to Consolidated Financial Statements (continued)

5. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value in the accompanying consolidated balance sheets, excluding assets invested in the Corporation's pension plans, are classified in the table below in one of the three categories described above (in thousands):

		September 30, 2011						
		Level 1		Level 2		Level 3		Total
Assets								
Cash and cash equivalents	S	139,631	\$	_	\$	_	\$	139,631
Assets limited as to use:								,
Cash and cash equivalents		3,771				_		3,771
Money market funds		110,548				_		110,548
Equity securities:								,
U.S.		43,856				_		43,856
International		79		-		_		79
Fixed income bonds:								
U.S.		_		47,747				47,747
International		_		9,137				9,137
Mutual funds:				- , ·				>,107
U.S.		171,973		_				171,973
International		66,014		_				66,014
Common collective funds:		00,011						00,017
U.S.		_		140,006		_		140,006
International		_		41,409		_		41,409
Alternative investments		_				25,504		25,504
Other		8		2,594		20,004		2,602
Other assets:		· ·		2,077		_		2,002
Cash and cash equivalents		500						500
Mutual funds:		500		_		_		300
U.S.		5,614		238				5,852
International		1,079		250		_		1,079
Funds held in trust by others:		1,077				_		1,079
Cash and cash equivalents		4,259						4,259
Equity securities:		4,239		_				4,239
U.S.		60,882						Z0 001
International		6,125		_				60,882
Fixed income bonds:		0,123		_		_		6,125
U.S.				39,529				20.520
International						_		39,529
Common collective funds:		_		3,950		_		3,950
U.S.				22.077				22.075
International		_		22,977		_		22,977
Mutual funds:		_		4,310		_		4,310
U.S.		2.246						2216
International		3,246		_		_		3,246
Other		727				400		727
		161		1,910		109		2,180
Liabilities								
Interest rate swaps		_		9,969		MAAAAA		9,969

Notes to Consolidated Financial Statements (continued)

5. Fair Values of Financial Instruments (continued)

	September 30, 2010							
		Level 1		Level 2		Level 3		Total
Assets								
Cash and cash equivalents	\$	90,044	\$	-	\$	_	\$	90,044
Assets limited as to use:								-
Cash and cash equivalents		2,111		_		·		2,111
Money market funds		4,434		_				4,434
Domestic equity securities		43,301						43,301
Domestic fixed income bonds				78,088				78,088
Mutual funds:				· ·				,
U.S.		74,777		_		_		74,777
International		66,137		_		_		66,137
Common collective funds:		,						00,207
U.S.		-		111,100		_		111,100
International		_		37,944		_		37,944
Other		_		270		_		270
Other assets:								2,0
Cash and cash equivalents		1,673				_		1,673
Domestic mutual funds		3,777				_		3,777
Funds held in trust by others:		5,						2,777
Cash and cash equivalents		3,697						
Equity securities:		2,057						
U.S.		62,015						62,015
International		5,896		_		_		5,896
Fixed income bonds:		2,020						2,070
U.S.		_		40,419				40,419
International		_		3,660				3,660
Common collective funds:				2,000		_		5,000
U.S.		_		13,722				13,722
International		_		3,786		_		
Mutual funds:		-		3,700		_		3,786
U.S.		3,366						2266
International		3,300 740		_		_		3,366
Other		740		1.060		_		740
Onici		_		1,969		_		1,969
Liabilities								
nterest rate swaps		_		9,009		-		9,009
-								

Notes to Consolidated Financial Statements (continued)

5. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value included in the Corporation's pension plans as of September 30, 2011 are classified in the table below in one of the three categories described above (in thousands):

		Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$	15,149	\$ _	\$ _	\$ 15,149
Money market funds		632	_		632
Equity securities:					
U.S.		41,354	_	_	41,354
International		39	_	_	39
Fixed income bonds:					
U.S.		. –	52,323	_	52,323
International		_	14,350	_	14,350
Mutual funds:					
U.S.		366,251	2,663		368,914
International		75,425	595		76,020
Common collective funds:					
U.S.		_	280,126		280,126
International		_	50,386	_	50,386
Alternative investments					
and other		-	11,684	6,090	 17,774
Total	_\$_	500,305	\$ 410,672	\$ 6,090	\$ 917,067

Notes to Consolidated Financial Statements (continued)

5. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value included in the Corporation's pension plans as of September 30, 2010 are classified in the table below in one of the three categories described above (in thousands):

	 Level 1	 Level 2	I	Level 3	Total
Cash and cash equivalents	\$ 18,792	\$ _	\$	_	\$ 18,792
Money market funds	704	_		_	704
Equity securities:					
U.S.	65,864	_		_	65,864
International	19	_		_	19
Fixed income bonds:					
U.S.	_	81,557		_	81,557
International	_	15,939		_	15,939
Mutual funds:					
U.S.	142,426	2,822		_	145,248
International	84,489	631		_	85,120
Common collective funds:					
U.S.	_	255,646		_	255,646
International	_	21,913			21,913
Other	 28,182	2,770		_	 30,952
Total	\$ 341,509	\$ 380,245	\$	_	\$ 721,754

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based upon model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including public market participants, dealers and brokers. The interest rate swap agreements are valued based on a determination of market expectations relating to the future cash flows associated with the swap contract using sophisticated modeling based on observable market-based inputs, such as interest rate curves.

Assets that are valued using significant unobservable inputs, such as extrapolated data, proprietary models or indicative quotes that cannot be corroborated with market data are classified in Level 3 within the fair value hierarchy. Level 3 assets are valued based on the Corporation's ownership interest in the net asset value (NAV) of the fund. As the NAV reported

Notes to Consolidated Financial Statements (continued)

5. Fair Values of Financial Instruments (continued)

by each fund is used as a practical expedient to estimate the fair value of the Corporation's interest therein. The Corporation routinely monitors and assesses methodologies and assumptions used in valuing these interests. The Level 3 assets include certain liquidity restrictions that may require 90 days advance notice for redemptions.

For the year ended September 30, 2011, the changes in the fair value of assets measured using significant unobservable inputs (Level 3) were comprised of the following (in thousands):

Beginning balance at February 1, 2011	\$ 28,588
Change in unrealized gains and losses	(2,085)
Realized gains	200
Purchases	5,000
Ending balance at September 30, 2011	\$ 31,703

The Corporation's long-term debt obligations were reported in the accompanying consolidated balance sheets at the carrying value. The fair values of these obligations were determined by the Corporation's investment advisor using a discounted cash flow analysis. At September 30, 2011 and 2010, the carrying value of the Corporation's long term debt approximated fair value.

Notes to Consolidated Financial Statements (continued)

6. Property, Plant and Equipment

Property, plant and equipment consists of the following at September 30:

	2011	2010
	(In The	ousands)
Land and land improvement	\$ 51,983	\$ 39,362
Buildings and fixed equipment	1,027,042	732,575
Equipment	775,546	539,992
	1,854,571	1,311,929
Less accumulated depreciation	(1,160,721)	(825,327)
-	693,850	486,602
Construction in process (estimated cost to	,	•
complete — \$24,999,000)	37,713	45,615
- ,	\$ 731,563	\$ 532,217

7. Pensions and Other Postretirement Benefits

The Corporation has cash balance retirement plans and defined benefit pension plans (both contributory and noncontributory), covering substantially all employees and noncontributory, supplemental defined-benefit retirement plans for certain executive employees (collectively, the Plans). The benefits are based on years of service and the employees' compensation as defined by each of the plans. The Corporation makes contributions in amounts sufficient to fund the Plans' current service cost and the funding policy is to contribute amounts to these plans sufficient to meet the minimum funding requirements set forth by federal government regulations. Several of the pension plans are frozen to new members.

The Corporation also has defined contribution plans covering substantially all of its employees and executives. Expense for employer contributions was approximately \$13,375,000 and \$8,370,000 for 2011 and 2010, respectively. These amounts are included in accrued pension liability on the consolidated balance sheets.

The Corporation provides health care and life insurance benefits to its retired employees who meet certain eligibility requirements. The Corporation's policy is to fund the cost of postretirement benefits other than pensions as incurred.

Notes to Consolidated Financial Statements (continued)

7. Pensions and Other Postretirement Benefits (continued)

Included in unrestricted net assets at September 30 are the following amounts that have not yet been recognized in net periodic benefit cost:

	2011	2010
Unrecognized actuarial loss Unrecognized prior service credit	\$ 529,953,000 (7,366,000)	\$ 428,061,000 (11,522,000)
	\$ 522,587,000	\$ 416,539,000

The actuarial loss and prior service credit included unrestricted net assets at September 30, 2011 and expected to be recognized in net periodic benefit cost during the year ending September 30, 2012 are as follows:

Unrecognized actuarial loss	\$	25,951,000
Unrecognized prior service credit	·	(3,453,000)
	\$	22,498,000

The following table sets forth the Plans' funded status and amounts recognized in the consolidated balance sheets:

	Pension Benefits		Other Post-Re	tirement Benefits
	2011	2010	2011	2010
		(in the	ousands)	
Change in benefit obligation				
Benefit obligation at beginning of year	\$ (1,016,162)	\$ (940,740)	\$ (101,671)	\$ (101,389)
Inclusion of obligation at Acquisition Date	(278,163)		· · · · · · · · · · · · · · · · · · ·	
Service cost	(41,473)	(32,161)	(2,338)	(2,372)
Interest cost	(62,847)	(52,165)	(5,110)	(5,505)
Employee contributions	· -	(24)		(109)
Benefits paid	60,827	53,895	4,946	4,514
Actuarial losses	(38,622)	(39,235)	(1,086)	(3,795)
Assumption changes	_	(3,520)	_	4,621
Plan amendments	_	(2,212)	(569)	2,364
Benefit obligation at year-end	\$ (1,376,440)	\$ (1,016,162)	\$ (105,828)	\$ (101,671)
		<u> </u>		

Notes to Consolidated Financial Statements (continued)

7. Pensions and Other Postretirement Benefits (continued)

	Pension	ı Be	nefits		Other Post Ber	t-Re nefit	
	2011		2010		2011		2010
			(In The	ousa.	nds)		
Change in plans' assets					ĺ		
Fair value of assets at beginning of year	\$ 721,754	\$	693,526	\$	_	\$	_
Inclusion of plan assets at Acquisition Date	222,894		_				_
Actual return on plans' assets	(6,700)		72,869				_
Benefits paid	(60,827)		(53,895)		(4,946)		(4,515)
Employer contributions	39,946		9,230		4,946		4,406
Employee contributions	_		24		_		109
Fair value of plans' assets at year-end	917,067		721,754				
Underfunded status of the plans'	\$ (459,373)	\$	(294,408)	\$	(105,828)	\$	(101,671)
Components of net periodic benefit cost							
Service cost	\$ 41,473	\$	32,161	\$	2,338	\$	2,372
Interest cost	62,847		52,165		5,110		5,505
Expected return on plans' assets	(74,257)		(67,101)				_
Settlement loss			203		_		_
Net amortization and deferral	14,708		6,476		644		883
Benefit cost included in the statements of	•		•				
operations and changes in net assets	\$ 44,771	\$	23,904	\$	8,092	\$	8,760

The accumulated benefit obligation for the Corporation's plans was approximately \$1,284,761,000 and \$951,303,000 at September 30, 2011 and 2010, respectively.

The weighted-average assumptions used to develop the projected benefit obligations were as follows:

	Pension	Benefits	Benefits		
	2011	2010	2011	2010	
Discount rate for determining benefit	(1-11-11-11-11-11-11-11-11-11-11-11-11-1				
obligations at year-end	4.55-5.30%	5.00-5.58%	5.05%	5.10%	
Rate of compensation increase	3.50%	3.50-4.00%	_	-	

Notes to Consolidated Financial Statements (continued)

7. Pensions and Other Postretirement Benefits (continued)

The weighted-average assumptions used to develop net periodic benefit cost were as follows:

	Pension	Benefits		-Retirement efits
	2011	2010	2011	2010
Discount rate Expected rate of return on plan	4.60-5.58%	5.50-6.10%	5.10%	5.55%
assets	5.15-8.25%	7.00-9.00%	_	_
Rate of compensation increase	3.50%	3.50-4.00%	_	_

The expected rate of return on assets was determined by the expected return on each asset class based on a model that considers historical and expected future performance.

The Corporation has two post-retirement benefit plans. The weighted-average annual assumed rates of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) are assumed to be 8.5% to 9%. Rates are assumed to decline to 5% through 2019 for one plan and to 5% through 2018 for the second plan. This health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, a one percentage point increase in the assumed health care cost trend rate would increase the service and interest costs and accumulated post-retirement benefit obligations by approximately \$151,000 and \$7,053,000 at September 30, 2011, respectively. A one percentage point decrease in the assumed health care cost trend rate would decrease the service and interest cost and accumulated post-retirement benefit obligations by approximately \$167,000 and \$6,068,000 at September 30, 2011, respectively.

Plans' Assets

The Plans weighted-average asset allocations at September 30, by asset category, are as follows:

		2010
Equity securities	60%	67%
Debt securities	35%	25%
Other	5%	8%
Total	100%	100%

Notes to Consolidated Financial Statements (continued)

7. Pensions and Other Postretirement Benefits (continued)

The pension plan asset portfolios have target allocations similar to the allocations noted in the table above. The goals of the plans are to provide a secure retirement benefit for plan participants and to manage pension plan assets for the exclusive benefit of the participants. The Investment Committee of the Board of Directors of each organization has responsibility for the development, review and monitoring of the investment policy. The plans' assets are invested in accordance with the policy.

Contributions

The Corporation expects to make contributions of approximately \$59,864,000 in fiscal year 2012 to its Plans and approximately \$5,643,000 to its other post-retirement benefit plans in fiscal year 2012.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, are expected to be paid as follows (in thousands):

	Pension Benefits	Other Post- Retirement Benefits
2012	\$ 83,329,000	\$ 5,643,000
2013	77,932,000	5,989,000
2014	79,629,000	6,393,000
2015	80,246,000	6,692,000
2016	84,950,000	7,103,000
2017-2021	493,925,000	39,587,000

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt

Details of long-term debt are as follows:

*	September 30			30
		2011		2010
		(In Th	ousar	ids)
Revenue bonds financed with the State of Connecticut Health and Educational Facilities Authority (CHEFA): Series A, consisting of a tax-exempt serial bond and term				
bonds; interest at rates ranging from 4.4% to 5.0%	\$	254,730	\$	_
Series B, tax-exempt variable rate term bond	Ψ	71,085	Ψ	_
Series C, taxable variable rate term bond		50,000		_
Series A, B, A-1 and B-1 (Medical Center)		-		82,915
Series B and A-1 (Hartford)		_		45,940
Series D (Windham)		_		19,350
Term loan (H.H.M.O.B.) due in monthly installment with variable interest rate through April 1, 2011 when a balloon				19,550
payment is due				10,377
Revolving line of credit (Corporation and Hartford)		10,060		25,000
Master financing agreement with CHEFA (Hartford) due in monthly installments with a fixed rate of 2.75% through				
September 17, 2015		16,221		20,000
Term loan (VNA Healthcare) due in monthly installments				
with a variable interest rate through June 1, 2014		1,925		2,800
Revolving Loan (Windham)		3,400		_
Commercial notes (Natchaug), at varying rates of imputed				
interest to 9.44%		3,234		3,854
Notes payable and capital lease obligation, at varying rates of imputed interest from 5.9% to 6%, collateralized by leased equipment (Windham)		602		1,400
Capital lease obligations (HOCC) for medical equipment, subject to liens, due in monthly installments, at varying				,
rates of imputed interest from 2.25% to 4.72%		5,997		
Capital lease obligation (Hartford), with option to purchase,				
due in monthly installments with interest at 6.25%		8,244		_
Other loans and notes, at varying rates of imputed interest		8,011		1,517
Premium on bonds	·	5,048		
		438,557		213,153
Less current portion		25,230		44,621
	\$	413,327	\$	168,532
			_	

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt (continued)

On September 29, 2011, the Corporation issued approximately \$375,815,000 of CHEFA Revenue Bonds Series A, B, and C (the HHC 2011 Bonds). In conjunction with the issuance of the HHC 2011 Bonds, an obligated group was formed. The members of the obligated group are the Corporation, Hartford, HOCC, Windham and the Medical Center, (collectively referred to as the Obligated Group). The Obligated Group members are identified as either an obligated group member or a designated affiliate. Obligated Group members are jointly and severally liable under a Master Trust Indenture (MTI) to make all payments required with respect to obligations under the MTI. The Corporation does have the right to name designated affiliates, although presently none exist. Though designated affiliates are not obligated to make debt service payments on the obligations under the MTI, each designated affiliate would have an independent designated affiliate agreement and promissory note with the Corporation with stipulated repayment terms and conditions, each subject to the governing law of the obligated groups' state of incorporation. In addition, the Corporation may cause each designated affiliate to transfer such amounts as necessary to enable the obligated group members to comply with the terms of the MTI, including payment of the outstanding obligations.

The HHC 2011 Bonds were issued to refund portions of existing debt under the Corporation, and to obtain funds for future capital needs. The HHC Series A Revenue Bonds consist of serial bonds that mature annually from July 1, 2014 through July 1, 2023 and the term bonds mature from July 1, 2024 through July 1, 2041. The HHC Series B Revenue Bonds consist of term bonds that mature from July 1, 2042 through July 1, 2049. The HHC Series B Revenue Bonds are secured by an irrevocable letter of credit issued by Bank of America which expires on September 29, 2018. The HHC Series C Revenue Bonds consist of term bonds that mature from July 1, 2042 through July 1, 2049. The HHC Series C Revenue Bonds are secured by an irrevocable letter of credit issued by JP Morgan Chase Bank which expires on October 1, 2016. The reimbursement terms of the letters of credit for the HHC Series B and C Revenue Bonds are such that in the event a letter of credit is drawn upon due to a failed remarketing the components available shall equal the aggregate principal and interest amount of bonds outstanding.

The MTI and Supplemental MTI provide for the potential establishment and maintenance of a debt service reserve fund, a pledge of gross receipts, as defined, and parity with the HHC Series A Revenue Bonds that remain outstanding. The MTI and loan agreements establish certain restrictive covenants, including a debt service coverage ratio and days cash on hand requirement. No violations of covenants existed as of September 30, 2011.

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt (continued)

The Medical Center issued Series A Revenue Bonds (Medical Center Series A Bonds) totaling \$69,785,000, consisting of \$43,010,000 of serial bonds and \$26,775,000 of term bonds, to finance the Medical Center's construction of a new hospital. The Medical Center Series A Bonds bear interest at rates ranging from 4.10% to 6.25%. Principal amounts related to the serial bonds mature annually each July 1 through 2016 and the term bonds mature on July 1, 2026. During 2000, an additional \$500,000 in Medical Center Series B Bonds was issued in conjunction with a related entity. The Medical Center Series A and B Bonds were extinguished during 2011 in conjunction with the HHC 2011 Bonds.

During 2002, an additional \$13,935,000 in Series A-1 bonds (Medical Center Series A-1 Bonds) was issued to fund an expansion of the Medical Center. The Medical Center Series A-1 Bonds are variable rate demand bonds secured by an irrevocable direct pay letter of credit issued by Bank of America. The letter of credit expires May 1, 2012. Under the \$13,935,000 bond indenture, the Medical Center had one balloon principal payment of \$13,935,000 due on July 1, 2031. As of September 30, 2010, the variable interest rate approximated .25%. The Medical Center Series A-1 Bonds were extinguished during 2011 in conjunction with the HHC 2011 Bonds.

During 2006, the Medical Center entered into a synthetic refinancing of its existing Medical Center Series A Bonds, whereby the Medical Center called the Medical Center Series A Bonds on July 1, 2006 from the current bondholders through a tender offer paying a call premium of 103. Bonds that were not tendered, totaling \$6,046,000, were redeemed at a premium of 102. The Medical Center simultaneously resold the Medical Center Series A Bonds to an unrelated third-party financial institution. The Medical Center entered into a Total Return Distribution Agreement with the financial institution whereby the Medical Center receives the fixed rate, ranging from 5.1% to 5.5%, and pays a variable rate equal to the BMA Index plus 26.5 basis points. This agreement had an effective date of July 1, 2006 and includes a total return payment at termination equal to any gain, paid by the financial institution, or loss, paid by the Medical Center, in the value of the Medical Center Series A Bonds. The Total Return Distribution Agreement has termination dates based on the serial maturity dates of the Medical Center Series A Bonds. The Total Return Swap Transaction was amended on April 13, 2010 and again on May 15, 2011. The Total Return Swap Transaction was terminated on September 29, 2011 in conjunction the extinguishment of the Medical Center Series A Bonds.

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt (continued)

In connection with the synthetic refinancing, the Medical Center also entered in to an interest rate swap agreement (LIBOR Swap), effective July 1, 2006, whereby the Medical Center receives a variable rate equal to 67% of one month LIBOR and pays a fixed rate of 3.777%. This agreement terminates July 1, 2026.

The fair value of the Medical Center's swap agreements were \$5,720,844 and \$5,823,740 at September 30, 2011 and 2010, respectively, and are recorded in the current portion of other liabilities in the accompanying balance sheets. Although the Total Return Distribution Agreement and LIBOR Swap represent economic hedges of the interest rate on the bonds, they do not qualify for hedge accounting. The changes in the fair value of these agreements are reported in the accompanying statements of operations and changes in net assets as a component of income from investments along with the net cash receipts on the swap agreements.

During 2008, an additional \$30,000,000 in Medical Center Series B-1 bonds were issued to fund an expansion of the Medical Center. The Medical Center Series B-1 bonds are variable rate demand bonds secured by an irrevocable direct pay letter of credit issued by Bank of America. The letter of credit expires June 18, 2012. Under the \$30,000,000 bond indenture, the Medical Center has one balloon principal payment of \$30,000,000 due on July 1, 2038. As of September 30, 2010, the variable interest rate approximated .25%. These bonds were extinguished in 2011 as part of the HHC 2011 Bonds.

In August 2000, \$30,675,000 of a \$31,175,000 CHEFA Variable Rate Demand Revenue Bonds, Hartford Issue Series B, were issued and are secured by an irrevocable direct pay letter of credit issued by Bank of America. The Bonds were issued to finance the construction of a 78-unit, independent living and assisted living facility (Cedar Mountain Commons) and the funding of various equipment purchases, software purchases and renovation projects. The Hartford Hospital Series B Bonds were extinguished during 2011 in conjunction with the HHC 2011 bonds.

In March 2002, \$15,265,000 of \$36,110,000 CHEFA Variable Rate Demand Revenue Bonds, Health Care Capital Asset Program Issue, Series A-1 (Hartford Hospital Series A-1 Bonds), were issued to Hartford and secured by an irrevocable direct pay letter of credit issued by Bank of America. The letter of credit expires on May 1, 2012. The Hartford Hospital Series A-1 Bonds were issued to purchase a parking garage from Hartford Hospital Real Estate Corporation and were extinguished during 2011 in conjunction with the HHC 2011 bonds.

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt (continued)

In September 2010, Hartford entered into a master financing agreement with CHEFA, for funds to be used to purchase all or a portion of the costs of various capital expenditures. The interest rate is 2.75% and payable in monthly installments of \$357,156 for a period of five years. The outstanding balance related to the master financing agreement as of September 30, 2011 and 2010 was \$16,221,000 and \$20,000,000, respectively.

Hartford entered into a capitalized lease for a satellite location. The lease is a twenty year lease with an option to purchase at the end of the thirty-seventh month. The monthly installments are \$71,637 with interest at 6.25%. The outstanding capital lease obligation was \$8,244,000 as of September 30, 2011.

As part of the HHC 2011 Bonds, the Obligated Group entered into a new line of credit for \$20,000,000 from Bank of America which expires in September 2012. As of September 30, 2011, Hartford drew \$10,060,000 on this line of credit, with a variable rate of 1.25% and is included in current portion of long-term debt on the consolidated balance sheets. As of September 30, 2010, Hartford drew \$26,500,000 on a then existing revolving loan of \$35,000,000, included in current portion of long-term debt, which was paid in conjunction with the HHC 2011 Bonds.

CHEFA 2007 Series D Revenue bonds in the amount of \$19,745,000 were issued by Windham. Proceeds from the issuance were used to redeem Series C CHEFA Bonds, payoff various capital leases, and fund equipment and facility improvements. The Windham Hospital Series D Bonds were extinguished during 2011 in conjunction with the HHC 2011 bonds. On September 29, 2011, HHC modified certain terms of the Schedule to the ISDA Master Agreement between Merrill Lynch Capital Services, Inc. and the Hospital in connection with the fixed payer interest rate swap agreement entered into on November 30, 2007. No financial terms of the swap agreement were modified.

In conjunction with the issuance of the Series D CHEFA Bonds, Windham entered into two interest rate swap agreements with a financial institution, with an original notional amount of \$19,745,000, to fix the debt at a rate of 4.15%. The fair value of the swap agreements were \$(4,795,987) and \$(3,185,469) at September 30, 2011 and 2010, respectively, and are recorded in other liabilities in the accompanying balance sheets. Although the swap agreements represent economic hedges of the interest rate on the bonds, they do not qualify for hedge accounting. The changes in fair value of these agreements are reported in the accompanying statements of operations and changes in net assets as a component of other nonoperating income along with the net cash receipts on the swap agreements.

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt (continued)

Windham has an outstanding line of credit with a financial institution for \$5,000,000 which expires on April 1, 2012. Interest is set at prime. As of September 30, 2011, Windham drew \$3,400,000 under this line of credit.

Principal payments due on long-term debt are as follows (in thousands):

Fiscal Year Ending September 30:	
2012	\$ 25,230
2013	11,496
2014	16,033
2015	8,200
2016	4,006
Thereafter	373,592
	\$ 438,557

Interest paid for the year ended September 30, 2011 and 2010 was \$6,960,000 and \$3,218,000, respectively.

9. Pledges Receivable

Pledges receivable, included in assets whose use is limited, and prepaid expenses and other assets, include the following unconditional promises to give as of September 30:

	2011	2010	
	(In Thousands)		
Due within one year	\$ 1,616	\$ 1,497	
Due in one to five years	946	1,661	
	2,562	3,158	
Less allowance and discount to present value	293	435	
Pledges receivable, net	\$ 2,269	\$ 2,723	

The discount recognizes the present value of the pledges. The allowance recognizes the estimated uncollectible portion of the pledges.

Notes to Consolidated Financial Statements (continued)

10. Professional Liability and Workers' Compensation Insurance

Coverage for professional liability insurance is provided on a claims-made basis. As such, the Corporation has also recorded a liability for estimated incurred but not reported claims.

The Corporation's primary coverage is with CHS Insurance Limited, a captive insurance company in which Hartford and the Medical Center each have a 25% ownership interest. The ownership is accounted for under the equity method in the accompanying consolidated statements of operations. The investment in CHS Insurance Limited is included in other assets in the consolidated balance sheets. The primary level of coverage through CHS Insurance Limited is \$10,000,000 per claim and \$39,000,000 in the aggregate. The excess indemnity coverage is layered with four different insurance companies at \$15,000,000 per claim and \$15,000,000 in the aggregate per layer.

GIC, which is a wholly owned subsidiary of HOCC, provides professional and general liability coverage on a claims-made basis to HOCC. HOCC does not self-insure any malpractice risks other than exposures greater than its excess coverage's'. Coverage provided in the attending physician program is on a claims-made basis and is based on each physician's retroactive coverage date. The limits of coverage per physician are \$1 million per claim and \$4 million in aggregate. In 2011, HOCC purchased excess insurance limits of \$35 million, above the insured retention noted above.

Activity in the reserve for losses and loss adjustment expenses is summarized as follows for the year ended September 30, 2011.

Balance at February 1, 2011	\$ 16,129,113
Incurred related to:	
Current year	2,379,916
Prior years	 (5,459,233)
Total incurred	3,079,317
Paid related to:	
Current year	2,799
Prior years	392,785
Total paid	395,584
Net balance at the end of the year	12,654,212
Plus: reinsurance recoverable	 7,355,995
Balance at end of the year	\$ 20,010,207

Notes to Consolidated Financial Statements (continued)

10. Professional Liability and Workers' Compensation Insurance (continued)

The ultimate settlement of losses may vary significantly from the reserves recorded. In particular, ultimate settlements on medical malpractice claims depend, among other things, on the resolution of litigation, the outcome of which is difficult to predict. In addition, since the reserves have been discounted, there is the possibility that the timing of loss payments and income earned on invested assets will be significantly different than anticipate.

A significant portion of the Corporation has established a policy of self-insuring the deductible portion of its workers' compensation insurance. The deductible limits are \$1,000,000 per claim for fiscal years ended September 30, 2011. In connection with this self-insurance program, Bank of America issued an irrevocable direct pay letter of credit to the Travelers Indemnity Company, the primary insurer, for an amount not to exceed \$7,100,000.

HOCC self insures workers' compensation claims with retentions on the first \$350,000 per claim. HOCC has also purchased excess liability insurance, which provides coverage for workers' compensation claims in excess of \$350,000, and up to aggregate limits of \$1,000,000 per employers' liability claim. The self-insurance plan is unfunded.

During the year, potential workers' compensation losses from asserted and unasserted claims identified by the Corporation's risk management system are accrued based upon estimates that incorporate the Corporation's past experience, as well as the nature of each claim or incident and relevant trend factors.

11. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Corporation. Such lawsuits and claims are either specifically covered by insurance as explained in Note 1 or are deemed to be immaterial. While the outcomes of the lawsuits cannot be determined at this time, management believes that any loss which may arise from these actions will not have a material adverse effect on the financial position or changes in net assets of the Corporation.

The Corporation has several operating lease agreements for certain real estate, medical equipment and computer equipment. Certain of these leases have renewal options for periods up to five years and escalation clauses. Rent is payable in equal monthly installments. Rent expense was \$30,119,000 and \$20,159,000 for the years ended September 30, 2011 and 2010, respectively.

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies (continued)

The future minimum lease payments are as follows (in thousands):

2012	\$ 15,737
2013	12,403
2014	9,122
2015	8,509
2016	9,299
Thereafter	79,790
	\$ 134,860

12. Functional Expenses

The Corporation provides health care services to residents within its geographic location. Net expenses related to providing these services are as follow:

	September 30								
	2011	2010							
	(In The	ousands)							
Health care services	\$ 1,403,309	\$ 1,087,927							
Support services	264,323	231,805							
Research	23,127	22,085							
Education	69,671	66,532							
	\$ 1,760,430	\$ 1,408,349							

Notes to Consolidated Financial Statements (continued)

13. Supplemental Cash Flow Information

The changes in assets and liabilities are as follows:

		r 30		
		2011		2010
		nds)		
Increase in accounts receivable	\$	(45,820)	\$	(67,881)
Increase in other receivables		(3,368)		(4,322)
Decrease in notes receivable		2,875		1,286
Decrease (increase) in inventories of supplies and prepaid				
expenses and other assets		18,923		(6,616)
Increase in other assets		(19,094)		(20,278)
Decrease in accounts payable		(55,335)		(795)
Increase in estimated third-party payor settlements		5,474		8,670
Decrease in salaries, wages, payroll taxes and amounts withheld from employees		(7,475)		(16,788)
Increase in accrued expenses and accrued pension liability				
and other liabilities		51,107		16,211
	\$	(52,713)	\$	(90,513)

14. Subsequent Event

The Corporation evaluated subsequent events through January 27, 2012, which is the date the financial statements were issued. No material events occurred that require disclosure or adjustment to the consolidated financial statements.

Other Financial Information



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Report of Independent Auditors on Other Financial Information

Board of Directors Hartford HealthCare Corporation and Subsidiaries

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating financial statements are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst + Young LLP

January 27, 2012

| | | Intifierd | HealthCare Corporation and Substidiuries | | Consolidating Balance Sheel | | September 30, 2011 | (In Theoremia)

	Hart			IIdState Medical	Windham	The Hospital of Contral Connections	II.II.M.O.B.	VNA Health Core,	Natchang Bossitol	Rushford Center, list.	Citatest 4 Lubropatory Postners	Control Connection Sendor Health Services Inc.	Central Connecticut Rephi	ConCons Services, Inc.	Community Mount Health Affiliates, Inc.	VNA of Contral Composition, Inc.	New Britain Occupational Braith Center	Central Consectost Sporte Medicina Center	Elizabationa	Total
	Health	Care H	rtford Rospital	Center	Haspital	Canneciical	Cerporation	jąc	15-esquioi	Center, tim.	T Personal	DEFINED, JAN								
Assets																				
Content nations:	_		64,149	\$ 20,898	s 3.274 s	20,299 \$	5,913	\$ 1,596	\$ 991	S L934	1,547	5 7,852	S 2,344	s 3.il1	S L719	E 1,262	\$ 365	\$ 315	\$	139,631
Cash and each equivalents	5	1,672		20,898	1-1.281	48,945	1,778	5,715	4380	2,301	5,476	1343			436	851	274	315	\$ (49)	241,722
Acontrals receivable, less all awarees			125,444			8,869	2,454	3,717	115	2,001	236	.,	_	_	234	45		120	(3,041)	30,390
Other receivebles		4,043	14,43ri	L,416	1,463	8,810 74	2,434	- 1	112		2.74	11	401	71				42	(17,400)	
Des from affillates, net		-	16,779			5,586	201	_	606		L.432	10			_	_		-		21,927
neventodes of supplies			11,055	1,896	1,163 L045	4,292	541	625	41111	422	1,155	360	2	641	384	37	44	35		22,667
Prevald expanses and other needs		300	[0,14]	2,526	LUIIO		343	025	_	14	1,100						_	_	(14)	
Notes seculvable from allitizing, nex		-	-	**	-		-	-	-	14		-				_		_		5.903
Current portion of assets whose use is limited		-	3,983			2,000	19.869	7,936	6,002	4,691	9.846	9,626	2,747	4,323	2,823	2,190	63/5	627	(20,504)	462,240
Total current esses		6,215	245,867	16,418	21,776	90,065	19,869	1,936	0,002	4,091	9,040	5,020	2,.45	1,022		4				
Assets whose use is limited:													1,640			7,773			(11,170)	325,844
leprestepents and other assets		-	216,444	10,835	326	89,632	-	9,323	-	1,041	-		1,040	-	-	3,734	_		(2.614)	216,209
Igy-estments for restricted purposes		-	175,054	L,666	2,302	46,086	-	2,188	-	-	-	1,352	-	-	195		-		(2,014)	B7,814
Exergic funds for long-term debt		32,371	54,673	-	-	-	-	-	-	-	-		-		-		-	-		19,598
Funds designated for debt service		2,484	6,943	6,312	1,440	2,397									195	7,773			(13,784)	658,695
		34,855	453,114	18,813	4,868	138,095	-	11,511	-	1,041	-	1,374	1,641	-	193	4,774	-	_	(12,124)	
Funds held in trust by others		_	1 5,839	11,683	2,505	[3,489		4.664	_	-	-	3	-	-	-	-		-	(4.550)	148,185
Due from affiliates, net		-	_	_	_	2,256	-	_	-		-		2,294	-	-	-		-	(250,300)	-
Investment in subsidintes		243,210	_	-	-	3,375	-	-	-	-	-		1,605	110	-	-		-	(250,300)	100.000
Other reserts		7,773	81,481	28,217	1,217	3,435	235	_	127	-	907	235		56	-	-				123,878 731,563
Property, plant and equipment, net		3.616	325,856	192,231	36,808	152,765	30,732	3,493	11.178	6,732	7,235	13,384		3,748	3,549		23	25 5 652	2	
2 topto (2, panit and a faithful and	\$	295,669 \$	1,222,177	247,362	66,269 S	403,480 \$	41,856	\$ 27,584	\$ 17,507	5 12,464	\$ 17,188	\$ 21,621	\$ 10,351	\$ 7,737	\$ 6,567	\$ 10,386	S 706	\$ 652	(289,133) 8	2,125,301
Mildes and not assets																				
'n Exhibities:																				
aunis pavable		3,000 \$	19,685 1	3,978	5,824 5	12,030 \$	753	\$ 2,337	\$ 713	\$ 370	\$ 2,407	1 215	\$ 1.5	\$ 4418	\$ 1,745	\$ 824	\$ 30	\$ 1	\$ (3,093) \$	\$1,242
acies, tyrees, payroll taxes and remounts	-	.,,,,,																		
withhold from employees		_	18,653	9,085	1,799	12,301	1,525	1,846	1,470	-	2,714	1,111	-	69	-	-		89		50,662
Accrated explaines		2,853	38,266	512	502	13,869	2.461	1,527	-	1,734	737	1,646	-	-	322		-		(1,093)	63,575
Notes payable to utilitates		2,000	20,10			-		9.51	_	· -	-	-	1,256	_	2,359	-	-	-	(5,566)	-
Pur to affifules, not		22,401				374	4,709	-	349	_	11,865	17	-	475	27		127		(40,359)	-
			6.850	1.800	n	23,898		464	(40)	464		260	-	_	231	128	-			34,665
Estimated third-party payor sulfatterns Current postion of long-term debt and		-	Alexan	Loud		10,000														
current postors of tong-term nittle and		_	16,972	_	3,773	2,745	23	700	132	130	-	-	-	554	201	-	-			25,230
Current portion of secretary paralon leability		-	L3.885		4,648	14,717	-	700	-		_	-		_	_	-	-	-		33,250
		-	6,640	LD.6-17	4/040	14(11)		_		_	_	-	_		_	_	7.			17,287
Current portion of other liabilities Total current liabilities		28,254	120,951	26,022	16,617	79,874	9,478	7,875	2,623	2,698	17,738	3,248	2,271	1,506	4,885	1,191	157	90	(50,111)	275,311
Long-term debt and english leases		38,029	191,509	88,755	19,623	39,982	8,972	1,125	3,102	-	-	20,425	-	t,239	386	-	**	-		413,327
													_	_	_	_	_	_		544,500
Accrued pension linbility		-	3-10,367	57,749	56,931	82,716	474		3,541	1.53	-	-	707	3,758	499			_	(2,735)	42,4ns
Other liabilities		-	6,957	2,433	4,748	25,710	728	-	-	151	-		101	Sitte	499	_	-		(4,17.7)	
Net assets:																0.000	549	562	(197,061)	491,087
Untestrialed		190,155	271,272	57,976	(35,978)	130,382	22,201	8,753	7,868	7,430	(550)	264		1,234	712	9,395	349	301	(17,836)	121,465
Termomotiv statricted		17,816	98,787	1,967	1,318	16,727	-	227	173	2,1R5	-	e)		-	_	-	-	-	(21,415)	235,405
Permission of perfected		21,415	192,304	12,160	3,610	20,089	-	6,852					-		85					847,957
,		229,386	562,313	72,403	(31,050)	175,198	22,201	15,932	8,041	9.615	(5.50)	930			797				(236,292) \$ (289,138) \$	2,123,561
	5	295,669 \$	1,222,177	247,367	66,369	403,480 \$	41,856	\$ 27,6114	\$ 17,307	\$ 12,464	5 17,188	\$ 24,62-	\$ 10,35L	\$ 7,737	\$ 6,567	S 10,586	3 708	\$ 652	e (289,138) \$	8,125,001

Consolidating Statement of Operations
For the Year Ended September 30, 2011
(In Thomsands)

		rtford tbCare	d Bartford Hospital	MEdShare Aledical Conter	Windbam Rospilel	The Hospital of Central Connecticut	H.H.M.O.B.	VNA Health Cate, bit.	Natelinus Hoxpitol	Radiford Center, Inc.	Clinical Laboratory Partiers	Central Connections Senior Health Services, Inc.	Connectiont Connection Realth Althore, Inc.	CenCoun Services, Inc.	Consumity Mental Health Affiliates, Inc.	VNA of Central Connecticut, Inc.	New Britain Occupational Dealth Center	Central Connecticul Sports Medicine Center	Eliminations	Total
Unrestrated revenues and other supports	116311	in.are	Bardoro Besquiet	t.eares	покры	Comittened			•									S 521	\$ (7,947)	\$ 1,615,988
Net patient service sevense		5	S 853,959 S	126,756	R5,856 \$	254,328 5	26,247				\$ 78,027	\$ 10,617			\$ 2,289	\$ 3,085 142	\$ 968	\$ 521		177,014
Other operating sevenas	3	13,664	121,952	27,159	2,697	6,264	24,583	1,945	18	14,647	15,045	7,259	5 1,153	3,012	7,772	142	4	-	(70,450)	12/3/14
Not assets released from permissions used												38				_		_		10,961
Eng apperations			9,463	2-11	347	563		293	67	347				3,012	10,281	3,227	978	521	(78,427)	1,803,963
		13,664	985,376	224,156	83,900	260,755	90,830	55,041	44,553	29,002	95.072	17,874	1,133	1,012	10,101	4,447	210		(10,10.1)	4,000
Operating expenses:											49,599	9,500	194	1,142	5,667	2,472	591	298	(7,899)	803,824
Spingles and wages		6,797	433,339	74,604	48,346	100,400	23,756	29,000	27,236	17,082 4,399	40,399 10,367	2,829		286	6,415	514	21	48	(1,141)	244,010
Employee benefits		835	128,869	24,868	16,025	33,680	4,260 7,464	5,361 12,586	8,2n5 4,328	3,616	19,175	2,961	(61)	978	1.814	195	231	71	(3,379)	372,433
Supplies and other		490	185,496	44,676	11,337	31,128	(9.883	4,715	3.477	7,188	12,534	1,372		193	1,068	26-1	114	63	(63,162)	263,926
Punchased services		7,255	157,980	45,776	19,599	56,545 12,790	2,851	4,313 L033	927	748	1.267	385		681	219	63	7	8	(0,737)	81,701
Depreciation and smurthabless		423	43,925	13,145	4,963	(465)	2,834	251	577	1.149	3,952	46				(20)		-		35,420
Provision for uncollectible accounts		4,351	2,928 1.556	8,300 2,275	3,345	(403) 578	121	235	247	1,119	2,752	Slei	_	19	30	-	-	-	(895)	6,487
Interest		430		215,792	92,167	234,637	56,859	53,941	45,052	29,189	87,894	36,709		3,345	10,213	3,788	1,014	488	(78,214)	L,757,795
		20,585	96-0,083	110,441	92,167	254,031	30,059	33,341	40,000	19,110	47,004	20,100								
Income (loss) from operations before loss on														(333	_	(561)	(44)	. 11	(213)	46,166
endy extinguishment of debt		(6,921)	21,291	8,364	(3,267)	26,058	(6,8d9)	1,103	(499)	(187)	5,178	1,165	962	(333)	65	(591)	(44)		(213)	40,100
, ,																		_		(2,635)_
Loss on early extinguishment of debt			(448)	(975)	(472)	(270)						(520)								(4)446/
(loss) on operations		(6,921)	20,843	7,439	(3,739)	25,828	(6.069)	1,143	(499)	(187)	5,178	6-15	952	(333)	68	(561)	(4-0)	. 33	(213)	49,533
(loss) on openitions		(0,921)	20,845	1,439	13,7379	23,830	(4,442)	2,11	(400)	(14.)	-,,									
cing income (loss):																287				13,334
. (Itosa) Droni lovesticents, gifts & hemiests, net		(310)	9,872	1,172	239	1,080	-	978	-	-		16		-	-	267	-			(2,265)
art		-	2,736	(107)	(5ú2)	(2,888)	(34)	12	-	(109)	(432)	(Adir)	-	-	-	-				(4,200)
Contribution received in the acquidition of Contril												_				_	_	_		190,132
Connecticut Health Alilance and Subsidiones		190.132						990		(209)	(402)	(861)				287				203.206
		189,822	12,608	1,065	(323)	(1.808)	(36)	990		1(10)	14321	(864)								
Pagesta (deficiency) of revenues only expenses																				
pages rymak printing britania armana					(4,062)	24,020	66,105)	2,093	(499)	(200)	4.746	(219)	962	(355	88	(274)	(44)	33	(213)	244,733
on.investments		182,981	33,451	8,501	(4,062)	24,020	(0/500)	2,063	(499)	(250)	4,140	444		13.0			,,,,			
Change in according gains and losses																				(18,574)
on investments		-	€ 7,370)	(611)	-			(750)		157									S (213)	
Excess (deficiency) of revenues over expenses	\$	182,901	5 6,0R S	7,893	E (4,062) \$	24,020 \$	(6,105)	5 1,3-13 5	(499)	\$ (139)	\$ 4,746	\$ (219)	2 963	\$ (333	35 (8	\$ (274)	2 (44)		3 (21.3)	\$ 226,159

31

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